

Market statistics

Current stock price (₹)	1,119
Shares O/S (cr.)	18.6
Mcap (₹ cr)	20,869
52W H/L (₹)	1173/612
Bloomberg	MPHL.IN

Shareholding pattern

Promoters	56.18
Domestic Institution	14.22
Foreign Institution	23.64
Non-institution of which more than 1%	5.96

Mphasis reported an in-line revenue growth in cc terms. We maintain a BUY rating on Mphasis, based on stellar deal wins providing higher revenue visibility (growth in FY21) and a stable operating profile (improving business-mix towards Direct Core). We expect Mphasis to outperform peers based on the following: (1) robust large deal wins (>US\$100mn TCV 2-year BFSI win in 1Q and US\$216mn TCV 3-year existing logo win) to propel Direct Core growth in 2Q/3Q; (2) new logo and Blackstone channel traction continues (>40% YoY in 1QFY21); (3) strong and diversified BFSI portfolio supported by growing Digital Risk segment; (4) Minimum revenue commitment to restrict the near-term impact on DXC business; (5) improving business-mix to support margins (guidance of 15.5-16.5% EBIT margin for FY21E). Mphasis' valuation discount to mid-tier IT is expected to compress, supported by an improving mix of high-growth Direct Core limiting the impact from DXC.

Quarterly details. Strong wins in Direct International - Revenue growth of (-) 4.6/+3.8% QoQ/YoY (cc terms) was led by Direct Core at (-)2.1/+6.9% QoQ/YoY (cc terms) and DXC at (-)15.8/ (-)14.3% QoQ/YoY (CC terms). (2) EBIT margin came in at 15.7%, -67/+18bps QoQ/YoY. (3) Deal wins in Direct International was strong at US\$259mn.

Digital acceleration trend. Mphasis CEO indicated that Covid has driven people, organizations and governments towards digitalization and digital platforms. Companies that invested in digital operating and business models have been more resilient. Management indicated that digital spending acceleration is across multiple segments.

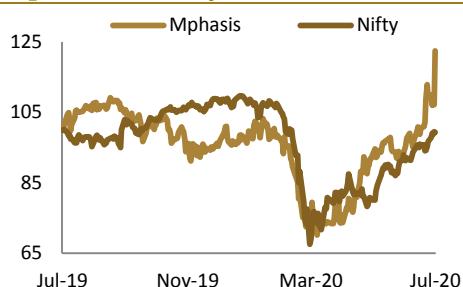
DXC. Mphasis indicated that MRC till Sep'21 provided a lower bound to revenues. Management indicated that sharp revenue decline in DXC channel was mainly on account of challenges in business faced by the client.

New client acquisition and Blackstone portfolio. The segment grew at a healthy 40% YoY in 1QFY21 and contributes ~4-5% to revenues. While management did not provide growth breakup of the Blackstone portfolio, we believe it grew in strong double digits.

Growth outlook. Mphasis indicated that revenue decline had bottomed out in 1QFY21 and expects sequential growth from 2QFY21. Management expects revenue growth in FY21. **EBIT margin guidance.** Mphasis has guided for EBIT margin band of 15.5-16.5% in FY21. The company expects margins in the next 3 quarters to be within the 15.5- 16.5% band as well.

Valuation: With strong historical revenue growth and expectations, differentiated growth channels in the form of Blackstone portfolio companies and long client relationships, improving margin profile, confident management commentary, we believe that that MPHL is a good stock to own at current levels. We believe recovery in digital business will be gradual while direct core business will be the key growth driver. Mphasis' relative performance does stand out due to – (1) good deal wins and (2) a portfolio of businesses that had tailwinds. For example, spends in BFSI, largest vertical for Mphasis at 59% of revenues, were relatively stable. **We maintain our BUY rating on the stock, given confidence in its business growth, and a good dividend yield (~7% on an average over the last 3 years including Buybacks).**

Mphasis vs. Nifty



Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	21.4	20.1	20.8
EPS (₹)	63.6	66.0	75.5
CEPS (₹)	76.0	78.9	89.4
P/E (x)	11.6	17.0	14.8
P/BV (x)	2.4	3.2	2.9
EV/EBITDA (x)	9.4	13.3	11.5
Income growth (%)	14.4	6.2	10.2
EBITDA growth (%)	24.7	8.7	12.6
PAT growth (%)	10.4	3.9	14.4

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Exhibit 1: Quarterly details

₹ mn	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Revenues (In US\$mn)	296.9	319.9	305.4	(4.5)	2.9	MPHL reported 4.6% revenue decline on a cc basis.
Revenues	20,626	23,462	22,882	(2.5)	10.9	
- Operating costs	16,883	19,021	18,704	(1.7)	10.8	
EBITDA	3,743	4,441	4,178	(5.9)	11.6	
EBITDA margin (%)	18.1	18.9	18.3	(67)bps	11bps	
- Interest expense	199	207	195	(5.8)	(2.0)	
- Depreciation	550	610	595	(2.5)	8.2	Includes a forex gain of ₹66mn for the quarter vs ₹43mn in 4Q.
+ Other income, net (incl forex)	541	526	377	(28.3)	(30.3)	
PBT	3,535	4,150	3,765	(9.3)	6.5	
- Taxes	888	618	1015	64.2	14.3	Tax rate to remain in the range of ~25%
Effective tax rate (%)	25.1	14.9	27.0	1,207bps	184bps	
PAT	2,647	3,532	2,750	(22.1)	3.9	
Net margin (%)	12.8	15.1	12.0	(304)bps	(82)bps	

Source: Company.

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	1,219	1,253	2.8	1,319	1,380	4.6
Revenue	88,951	93,941	5.6	96,310	103,494	7.5
EBITDA margin (%)	17.8	19.1	130bps	18.2	19.5	130bps
EPS (₹)	58.0	66.0	13.8	65.7	75.5	14.9

Source: Trust Research

Geography wise Revenues: Europe has been a focus area for the company in the past few years. Increased sales efforts and investments have aided strong deal wins and revenue growth in Europe. US declined 3.8%, Europe was down 7.6%.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
US	79.1	80.1	78.3	77.6	78.8	79.2	77.5	76.3	76.8
Europe	11.5	10.8	11.1	11.4	10.7	10.1	11.5	12.3	11.9
RoW	9.4	9.1	10.4	11.0	10.5	10.6	11.0	11.4	11.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Operating mix (%)

Details	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Application maintenance	30.2	34.4	35.8	33.5		30.3	28.6		
Application development	27.5	27.7	29.8	31.4		33.4	32.2		
Customer service	1.2	1.0	1.1	1.1		1.1	1.2		
Service/ technical help desk	8.2	6.5	6.7	7.1		7.2	7.9		
Transaction processing service	6.6	6.3	6.2	6.3		6.6	7.8		
Infrastructure management services	14.8	14.2	12.7	12.7		12.6	13.0		
Knowledge processes	11.5	9.9	7.6	7.9		8.9	9.4		
Application Services					65			64	64
Business Process Services					15			18	21
Infrastructure Services					20			18	15
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Client Concentration: Mphasis indicated that the company has signed a large deal with TCV of US\$216mn with tenure of 3 years with a non-BFS client in July 2020. The deal will ramp up over 2QFY21 and 3QFY21. Mphasis indicated that the deal involved wallet share gain in an existing client.

Exhibit 5: Client details

Details	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Top client (%)	13.0	14.0	14.0	14.0	14.0	NA	NA	13.0	12.0
Top 5 clients (%)	41.0	43.0	46.0	47.0	38.0	NA	NA	38.0	39.0
Top 10 clients (%)	56.0	58.0	59.0	60.0	47.0	NA	NA	47.0	48.0
US\$1mn+	93	95	96	94	72	NA	NA	76	79
US\$5mn+	37	36	33	33	27	NA	NA	31	32
US\$10mn+	18	19	19	17	14	NA	NA	15	16
US\$20mn+	8	8	8	8	7	NA	NA	7	7

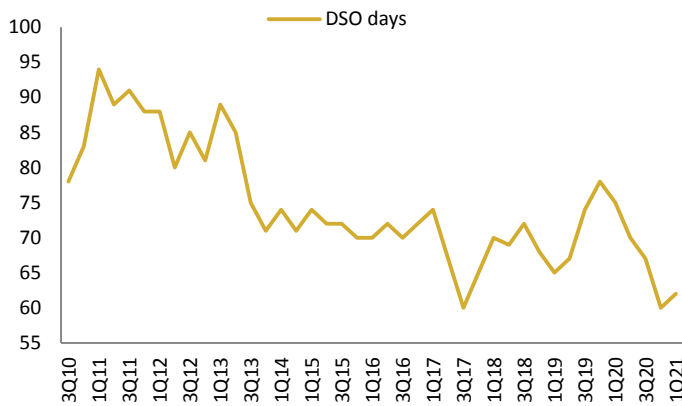
Source: Company

Exhibit 6: Billing rates (US\$/hr)

Details	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Applications (onsite)	85	86	85	90	90	92	93	95	NA
ITO (onsite)	86	86	81	86	78	77	75	78	NA
Applications (offshore)	22	22	23	23	23	23	23	24	NA
BPO (offshore)	10	10	10	11	11	12	12	12	NA
ITO (offshore)	24	23	24	24	24	26	25	24	NA

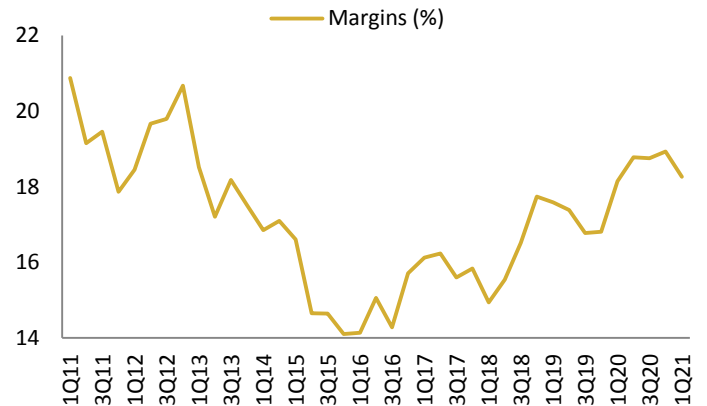
Source: Company

Exhibit 7: DSO days was up QoQ to 62



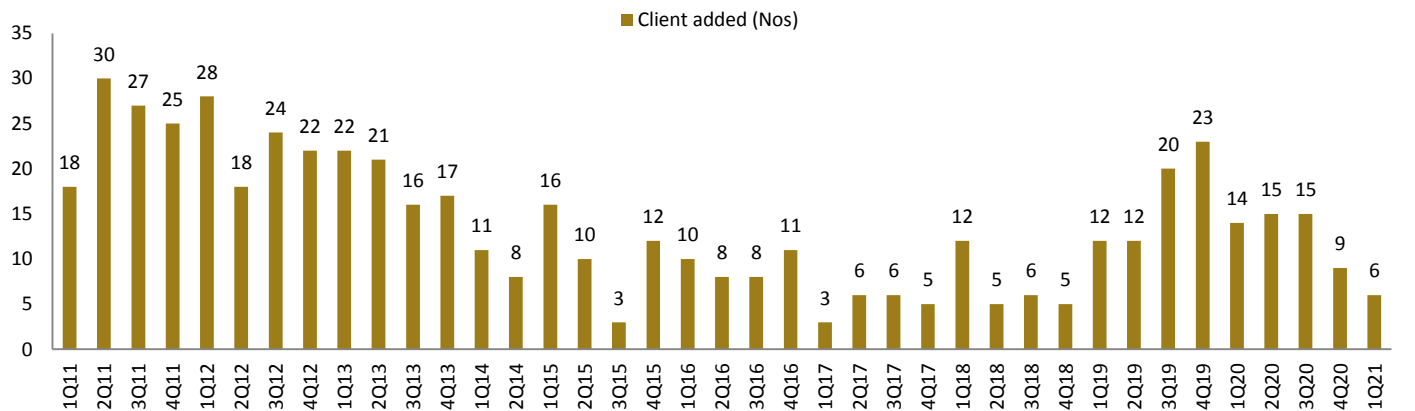
Source: Company, Trust

Exhibit 8: Margin was better compared to estimates



Source: Company, Trust

Exhibit 9: Client addition at MPHL



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	65,459	77,311	88,436	93,941	103,494
Op. Expenses	54,834	64,071	71,931	75,997	83,297
EBITDA	10,625	13,240	16,505	17,943	20,197
Other Income	1,620	1,747	1,780	1,658	1,808
Depreciation	709	759	2,317	2,412	2,612
EBIT	11,536	14,228	15,968	17,190	19,394
Interest	130	155	813	671	604
PBT	11,406	14,073	15,155	16,519	18,790
Tax	2,900	3,339	3,306	4,204	4,697
PAT	8,506	10,734	11,849	12,316	14,092
Ex. ordinary	131	-	-	-	-
Adj Pat	8,375	10,734	11,849	12,316	14,092

Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	44.0	57.7	63.6	66.0	75.5
CEPS	47.7	61.7	76.0	78.9	89.4
BVPS	283.6	282.0	312.8	346.0	381.2
DPS	20.0	27.0	35.0	35.0	40.0
Payout (%)	53.2	54.8	55.1	53.0	53.0
Valuation (x)					
P/E	19.2	17.2	11.6	17.0	14.8
P/BV	3.0	3.5	2.4	3.2	2.9
EV/EBITDA	16.3	15.5	9.4	13.3	11.5
Dividend Yield (%)	2.4	2.7	4.8	3.1	3.6
Return ratio (%)					
EBIDTA Margin	16.2	17.1	18.7	19.1	19.5
PAT Margin	13.0	13.9	13.4	13.1	13.6
ROAE	14.6	20.0	21.4	20.1	20.8
ROACE	18.8	24.4	24.7	23.2	24.2
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.1	0.1	0.1
Net Debt/Equity	(0.4)	(0.3)	(0.2)	(0.3)	(0.3)
Current ratio	2.8	2.1	2.0	2.3	2.4
Growth Ratios (%)					
Income growth	7.7	18.1	14.4	6.2	10.2
EBITDA growth	9.7	24.6	24.7	8.7	12.6
PAT growth	4.2	28.2	10.4	3.9	14.4
Turnover Ratios					
Inventor Days	0	-	-	-	-
Debtors Days	40	42	37	38	44
Payable days	9	9	9	9	9

Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds					
Equity Share Capital	1,933	1,862	1,865	1,866	1,868
Reserves & Surplus	52,885	50,636	56,431	62,681	69,330
Total Shareholders Fund	54,818	52,498	58,296	64,547	71,197
Non-current liabilities	(41)	461	5,410	5,332	5,432
Long term Borrowings	38	40	5,844	5,844	5,844
Deferred tax liabilities	(1,007)	(786)	(2,020)	(1,553)	(1,553)
Other LT liabilities & prov	928	1,207	1,586	1,041	1,141
Current Liabilities	14,020	19,937	21,672	22,370	23,970
Short-term borrowings	3,899	5,426	5,713	5,713	5,713
Trade payables	5,024	7,850	6,667	6,871	7,531
Other cur liabilities & Prov	5,097	6,661	9,292	9,786	10,726
Total Liabilities	68,796	72,897	85,377	92,250	100,600
Assets					
Non-current Assets	29,336	31,866	41,247	41,545	42,244
Fixed assets	1,848	2,142	2,661	2,446	2,335
Non-current investments	20,184	22,176	31,120	31,120	31,120
Long-term loans & adv	1,140	709	641	772	851
Other non-current assets	6,164	6,839	6,826	7,206	7,939
Current assets	39,460	41,031	44,131	50,705	58,355
Current investments	14,651	10,700	9,778	9,778	9,778
Trade receivables	8,116	9,554	8,353	11,582	11,625
Inventories	-	-	-	-	-
Cash & bank balances	4,642	3,520	9,901	12,359	18,238
Short-term loans & adv	824	1,257	1,409	1,544	1,701
Other current assets	11,227	16,000	14,690	15,442	17,013
Total Assets	68,796	72,897	85,377	92,250	100,600

Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	11,406	14,073	15,155	16,519	18,790
Depreciation	3,071	980	1,083	2,879	2,612
Others	(131)	-	-	-	-
CF before W.cap	14,346	15,053	16,238	19,398	21,402
Inc/dec in W.cap	2,057	2,217	(4,266)	4,475	883
Op CF after W.cap	12,289	12,836	20,504	14,923	20,519
Less Taxes	2,900	3,339	3,306	4,204	4,697
Net CF From Operations	9,389	9,497	17,198	10,719	15,822
Inc/(dec) in F.A + CWIP	313	1,053	2,836	2,197	2,500
(Pur)/sale of Investments	(3,190)	(1,959)	8,021	-	-
CF from Invst Activities	2,877	906	(10,857)	(2,197)	(2,500)
Loan Raised/(repaid)	1,324	1,529	6,091	-	-
Equity Raised	(10,559)	(7,173)	472	465	28
Dividend	4,523	5,881	6,524	6,529	7,470
CF from Fin Activities	(13,757)	(11,525)	40	(6,064)	(7,442)
Net inc/(dec) in cash	(1,491)	(1,122)	6,381	2,458	5,879
Op. bal of cash	6,133	4,642	3,520	9,901	12,359
Cl. balance of cash	4,642	3,520	9,901	12,359	18,238

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Hold 15% to -15%

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